

EXHIBIT 15

**AMD Annual Report (Form 10-K) for
the fiscal year ended 2001**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 30, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number 1-7882

ADVANCED MICRO DEVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of
incorporation or organization)

94-1692300
(I.R.S. Employer
Identification No.)

One AMD Place,
Sunnyvale, California
(Address of principal executive offices)

94086
(Zip Code)

(408) 732-2400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
\$.01 Par Value Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

Aggregate market value of the voting stock held by non-affiliates as of February 25, 2002.

\$4,630,673,874

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

341,243,469 shares as of February 25, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Annual Report to Stockholders for the fiscal year ended December 30, 2001, are incorporated into Parts II and IV hereof.
- (2) Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2002, are incorporated into Part III hereof.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock (symbol "AMD") is listed on the New York Stock Exchange. The information regarding market price range, dividend information and number of holders of our common stock appearing under the captions, "Supplementary Financial Data" and "Financial Summary" on pages 47 and 48 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

During 2001, we did not make any sales of our equity securities which were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The information regarding selected financial data for the fiscal years 1997 through 2001, under the caption, "Financial Summary" on page 48 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 10 through 24 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information appearing under the caption, "Quantitative and Qualitative Disclosure about Market Risk" on pages 18 through 19 of our 2001 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements as of December 30, 2001 and December 31, 2000 and for each of the three years in the period ended December 30, 2001, and the report of independent auditors thereon, and our unaudited quarterly financial data for the two-year period ended December 30, 2001, appearing on pages 25 through 46 of our 2001 Annual Report to Stockholders, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RISK FACTORS

We Depend Upon Market Demand for Our Flash Memory Products. The demand for Flash memory devices continues to be weak due to the sustained downturn in the communications and networking equipment industries and excess inventories held by our customers. In addition, we expect competition in the market for Flash memory devices to increase in 2002 and beyond as competing manufacturers introduce new products and industry-wide production capacity increases. We may be unable to maintain or increase our market share in Flash memory devices as the market develops and Intel and other competitors introduce competitive products. A decline in sales of our Flash memory devices and/or lower average selling prices could have a material adverse effect on us.

In 2001, we announced a new memory cell architecture, our MirrorBit(TM) technology that enables Flash memory products to hold twice as much data as standard Flash memory devices. MirrorBit technology is expected to result in reduced cost of our products. We plan to produce our first products with MirrorBit technology in the second half of 2002. Any delay in our transition to MirrorBit technology, or failure to achieve the cost savings we expect, could reduce our ability to be competitive in the market and could have a material adverse effect on us.

We Depend on the Commercial Success of Our Microprocessor Products. The microprocessor market is characterized by short product life cycles and migration to ever-higher performance microprocessors. To compete successfully against Intel in this market, we must transition to new process technologies at a fast pace and offer higher-performance microprocessors in significantly greater volumes. If we fail to achieve yield and volume goals or to offer higher-performance microprocessors in significant volume on a timely basis, we could be materially adversely affected.

We must continue to market successfully our seventh-generation Microsoft Windows compatible microprocessors, the AMD Athlon and AMD Duron microprocessors. To sell the volume of AMD Athlon and AMD Duron microprocessors we currently plan to manufacture through 2002, we must increase sales to existing customers and develop new customers in both consumer and commercial markets. Our production and sales plans for microprocessors are subject to other risks and uncertainties, including:

- o our ability to achieve a successful marketing position for the AMD Athlon XP microprocessor, which relies on market acceptance of a metric based on overall processor performance versus processor speed;
- o our ability to maintain average selling prices of microprocessors despite increasingly aggressive Intel pricing strategies, marketing programs, new product introductions and product bundling of microprocessors, motherboards, chipsets and combinations thereof;
- o our ability to continue offering new higher performance microprocessors competitive with Intel's Pentium 4 processor;
- o our ability, on a timely basis, to produce microprocessors in the volume and with the performance and feature set required by customers;
- o the pace at which we are able to ramp production in Dresden Fab 30 on 0.13 micron copper interconnect process technology;
- o our ability to expand our chipset and system design capabilities;
- o the availability and acceptance of motherboards and chipsets designed for our microprocessors; and
- o the use and market acceptance of a non-Intel processor bus, adapted by us from Digital Equipment Corporation's EV6 bus, in the design of our seventh-generation and future generation microprocessors, and the availability of chipsets from vendors who will develop, manufacture and sell chipsets with the EV6 interface in volumes required by us.

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Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors depends on the continuing success of the AMD Athlon and AMD Duron microprocessors, our seventh-generation processors, and future generations of microprocessors, beginning with the eighth-generation "Hammer" family of processors that we currently plan to introduce at the end of 2002.

If we fail to achieve continued and expanded market acceptance of our seventh-generation microprocessors or if we fail to introduce in a timely manner, or achieve market acceptance for, the Hammer microprocessors, we may be materially adversely affected.

We Face Significant Competition from Intel Corporation. Intel has dominated the market for microprocessors used in PCs for many years. As a result, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the market requires of Intel's competitors. In addition, the financial strength of Intel allows it to market its product aggressively, target our customers and our channel partners with special incentives and discipline customers who do business with us. These aggressive activities can result in lower average selling prices for us and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially adversely affected by its:

- o pricing and allocation strategies;
- o product mix and introduction schedules;
- o product bundling, marketing and merchandising strategies;
- o control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system (BIOS) suppliers; and
- o user brand loyalty.

We expect Intel to maintain its dominant position in the marketplace as well as to continue to invest heavily in research and development, new manufacturing facilities and other technology companies.

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, distributors of Intel technology.

In marketing our microprocessors to these OEMs and dealers, we depend on companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel micro-

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processors Our ability to compete with Intel in the market for seventh- generation and eighth-generation microprocessors will depend on our ability to ensure that the microprocessors can be used in PC platforms designed to support our microprocessors or that platforms are available that support both Intel processors and our microprocessors. A failure of the designers and producers of motherboards, chipsets, processor modules and other system components to support our microprocessor offerings would have a material adverse effect on us

The Cyclical Nature of the Semiconductor Industry May Limit Our Ability to Maintain or Increase Revenue and Profit Levels During Industry Downturns. The semiconductor industry is highly cyclical, to a greater extent than other less dynamic or less technology-driven industries. In the past, including during 2001 and currently, our financial performance has been negatively affected by significant downturns in the semiconductor industry as a result of:

- o the cyclical nature of the demand for the products of semiconductor customers;
- o excess inventory levels by customers;
- o excess production capacity; and
- o accelerated declines in average selling prices.

If current conditions do not improve in the near term or if these or other conditions in the semiconductor industry occur in the future, we will be adversely affected.

Our Business Is Subject to Fluctuations in the Personal Computer Market. Our business is closely tied to the personal computer industry. Industry-wide fluctuations in the PC marketplace have materially adversely affected us, including the industry downturn experienced during 2001 and currently, and may materially adversely affect us in the future.

Worldwide Economic and Political Conditions May Affect Demand for Our Products. The economic slowdown in the United States and worldwide, exacerbated by the occurrence and threat of terrorist attacks and consequences of sustained military action, has adversely affected demand for our microprocessors, Flash memory devices and other integrated circuits. Similarly, a continued decline of the worldwide semiconductor market or a significant decline in economic conditions in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us.

We Depend on Microsoft Corporation's Support for Our Products and Its Logo License. Our ability to innovate beyond the x86 instruction set controlled by Intel depends on support from Microsoft in its operating systems. If Microsoft does not provide support in its operating systems for our x86 instruction sets, independent software providers may forego designing their software applications to take advantage of our innovations. In addition, we have entered into logo license agreements with Microsoft that allow us to label our products as "Designed for Microsoft Windows." If we fail to retain the support and certification of Microsoft, our ability to market our processors could be materially adversely affected.

We Will Have Significant Capital Requirements in 2002. We plan to continue to make significant capital expenditures to support our microprocessor and Flash memory products both in the near and long term, including \$850 million in 2002. These capital expenditures will be a substantial drain on our cash flow and may also decrease our cash balances. To the extent that we

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cannot generate the required capital internally or obtain such capital externally, we could be materially adversely affected

In March 1997, our indirect wholly owned subsidiary, AMD Saxony, entered into a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, and equity investments in, AMD Saxony. We currently estimate that the construction and facilitization costs of Dresden Fab 30 will be \$2.5 billion when fully equipped by the end of 2003. We had invested \$1.8 billion as of December 30, 2001. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the loan agreement, which would permit acceleration of indebtedness.

We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.4 billion when fully equipped. As of December 30, 2001, approximately \$1.5 billion of this cost had been funded. To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million. If we are unable to fulfill our obligations with respect to FASL, our business could be materially and adversely affected.

While the FASL joint venture has been successful to date, there can be no assurance that Fujitsu and AMD will elect to continue the joint venture in its present form or at all.

Fluctuations in Demand for Our Products Relative to the Capacity of Our Manufacturing Facilities Could Have a Material Adverse Effect on Us. Because we cannot quickly adapt our manufacturing capacity to rapidly changing market conditions, at times we underutilize our manufacturing facilities as a result of reduced demand for certain of our products. We are substantially increasing our manufacturing capacity by making significant capital investments in Dresden Fab 30, FASL JV3 and our test and assembly facility in Suzhou, China. If the increase in demand for our products is not consistent with our expectations,

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we may underutilize our manufacturing facilities, and we could be materially adversely affected. This has in the past had, and in the future may have, a material adverse effect on our earnings.

We have also begun to convert our manufacturing facility in Austin, Texas (Fab 25) from production of microprocessors to production of our Flash memory devices. At this time, the most significant risk is that we will have underutilized capacity in Fab 25 as we continue to transition the production of microprocessors out of Fab 25 and into Dresden Fab 30 and as we convert Fab 25 to a Flash memory device production facility while demand for flash memory products remains depressed.

There may also be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on us. Further, we cannot be certain that we will be able to implement the process technology for the conversion of Fab 25 in a timely manner. During this period of conversion, Fab 25 may not be fully productive. Similarly, Dresden Fab 30 is expected to be fully facilitated by the end of 2003. During this process, Dresden Fab 30 will not be fully productive. A substantial delay in the successful conversion of Fab 25 or the facilitization of Dresden Fab 30 could have a material adverse effect on us.

We Make Substantial Investments in Research and Development of Process Technologies That May Not Be Successful. We make substantial investments in research and development of process technologies in an effort to improve the technologies and equipment used to fabricate our products. For example, the successful development and implementation of silicon on insulator technology is critical to the Hammer family of microprocessors currently under development. However, we cannot be certain that we will be able to develop or obtain or successfully implement leading-edge process technologies needed to fabricate future generations of our products.

Any Substantial Interruption of or Problems with Our Manufacturing Operations Could Materially Adversely Affect Us. Any substantial interruption of our manufacturing operations, either as a result of a labor dispute, equipment failure or other cause, could materially adversely affect us. Further, manufacturing yields may be adversely affected by, among other things, errors and interruptions in the fabrication process, defects in raw materials, implementation of new manufacturing processes, equipment performance and process controls. A decline in manufacturing yields may have a material adverse effect on our earnings.

Our Products May not Be Compatible with Some or All Industry-Standard Software and Hardware. It is possible that our products may not be compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on us.

Costs Related to Defective Products Could Have a Material Adverse Effect on Us. It is possible that one or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

We Rely on the Availability of Essential Raw Materials to Manufacture Our Products. Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure certain of

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these materials, we might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

We Are Subject to Political and Economic Risks Associated with Our Operations in Foreign Countries. Nearly all product assembly and final testing of our products are performed at our manufacturing facilities in Penang, Malaysia; Bangkok, Thailand; Suzhou, China; Japan; and Singapore; or by subcontractors in the United States and Asia. We also depend on foreign foundry suppliers and joint ventures for the manufacture of a portion of our finished silicon wafers and have international sales operations. The political and economic risks associated with our operations in foreign countries include:

- o expropriation;
 - o changes in a specific country's or region's political or economic conditions;
 - o trade protection measures and import or export licensing requirements;
 - o difficulty in protecting our intellectual property;
 - o changes in foreign currency exchange rates and currency controls;
 - o changes in freight and interest rates;
 - o disruption in air transportation between the United States and our overseas facilities; and
 - o loss or modification of exemptions for taxes and tariffs;
- any of which may have a material adverse effect on us.

We Rely on Our Ability to Attract and Retain Key Personnel. Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be otherwise adversely affected.

Our Operating Results are Subject to Substantial Quarterly and Annual Fluctuations. Our operating results are subject to substantial quarterly and annual fluctuations due to a variety of factors, including decreases in average selling prices of our products, general worldwide economic conditions, the gain or loss of significant customers, market acceptance of our products and new product introductions by us or our competitors. In addition, changes in the mix of products produced and sold in the mix of sales by distribution channels, in the availability and cost of products from our suppliers or in production capacity and manufacturing yields can contribute to periodic fluctuations in operating results.

Our operating results also tend to vary seasonally. Our revenues are generally lower in the first, second and third quarters of each year than in the fourth quarter. This seasonal pattern is largely a result of decreased demand in Europe during the summer months and higher demand in the retail sector of the PC.

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market during the winter holiday season.

The Market for Our Products Is Subject to Rapid Technological Change The market for our products is generally characterized by rapid technological developments, evolving industry standards, changes in customer requirements, frequent new product introductions and enhancements, short product life cycles and severe price competition. Our success depends substantially on our ability, on a cost-effective and timely basis, to continue to enhance our existing products, develop and introduce new products that take advantage of technological advances and meet the demands of our customers.

We Face Intense Competition in the Integrated Circuit Industry. The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market and successive generations of products are developed and introduced for sale. Failure to reduce our costs on existing products or to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins, would have a material adverse effect on us.

Our Customers Can Cancel or Revise Purchase Orders Without Penalty. As a Result, We Must Commit Resources to the Manufacture of Products Without Any Advance Purchase Commitments from Customers. Sales of our products are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time, which may be revised or canceled without penalty. As a result, we must commit resources to the manufacture of products without any advance purchase commitments from customers. Therefore, the failure of demand for our products to match the supply of our products could result in the expenditure of excess costs, which could have a material adverse effect on us.

Our Obligations Under Specific Provisions in our Agreements with Distributors Expose Us to Material Adverse Effects When We Experience an Unexpected Significant Decline in the Price of Our Products. Distributors typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally allow for the return of our products. The price protection and return rights we offer to our distributors could materially adversely affect us if there is an unexpected significant decline in the price of our products.

We May Not Be Able to Adequately Protect Our Technology or Other Intellectual Property, in the United States and Abroad, Through Patents, Copyrights, Trade Secrets, Trademarks and Other Measures. We may not be able to adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Further, patent applications that we file may not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property on a worldwide basis.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the

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third party's intellectual property rights. We cannot assure you that all necessary licenses can be obtained on satisfactory terms, if at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us and others will always be avoided or successfully concluded.

Our Inability to Effectively Transition to a New Enterprise Resource Planning Program Could Have a Material Adverse Effect on Us. We are currently in the process of transitioning to a new enterprise resource planning program. If we are unsuccessful in transitioning to this new system in an effective and timely manner, we could be materially adversely affected.

Failure to Comply with Applicable Environmental Regulations Could Materially Adversely Affect our Business. Our business involves the use of hazardous materials. If we fail to comply with governmental regulations related to the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process, we may be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations. Such regulations could require us to procure expensive remediation equipment or to incur other expenses to comply with environmental regulations. Any failure to control the use of, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on us. Violations of environmental laws may result in criminal and civil liabilities.

Terrorist Attacks, Such as the Attacks That Occurred in New York and Washington, DC on September 11, 2001, and Other Acts of Violence or War May Materially Adversely Affect the Markets in which We Operate, Our Operations and Our Profitability. Terrorist attacks may negatively affect our operations. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive and ultimately affect our sales.

Also as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our sales, our supply chain, and our ability to deliver products to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and

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economy. They also could result in or exacerbate economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs, volatility of the market price for our securities and on the future price of our securities.

We Are Located in an Earthquake Zone. Our corporate headquarters, a portion of our manufacturing facilities, assembly and research and development activities and certain other critical business operations are located near major earthquake fault lines. In the event of a major earthquake, we could experience business interruptions, destruction of facilities, and/or loss of life, all of which could materially adversely affect us.

We Have a Substantial Amount of Debt and Debt Service Obligations, Which Could Adversely Affect Our Financial Position. Our Loan Agreement provides for a four-year secured revolving line of credit of up to \$200 million, which currently expires on July 14, 2003. Under this agreement, we can borrow, subject to amounts which may be set aside by the lenders, up to 85% of our eligible accounts receivable from OEMs and 50% of our eligible accounts receivable from distributors. We must comply with certain financial covenants if the level of cash we hold in the United States declines to certain levels. Our obligations under this agreement are secured by a pledge of most of our accounts receivable, inventory, general intangibles and the related proceeds. As of December 30, 2001, we had \$50 million outstanding under the Loan Agreement, which has subsequently been repaid.

Our indirect wholly owned subsidiary, AMD Saxony, is a party to a loan agreement and other related agreements with a consortium of banks led by Dresdner Bank AG. These agreements require that we partially fund Dresden Fab 30 project costs in the form of subordinated loans to, or equity investments in, AMD Saxony. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the Bank of America loan and security agreement, which would permit acceleration of indebtedness under both agreements. In addition, the Dresden Loan Agreement prohibits AMD Saxony from paying any dividends, so cash held by AMD Saxony will not be available for the repayment of the debentures.

To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992% interest in FASL. If we are unable to fulfill our obligations to FASL, our business could be materially and adversely affected. In 2000, FASL further expanded its production capacity through a foundry arrangement with Fujitsu Microelectronics, Inc. (FMI), a wholly owned subsidiary of Fujitsu Limited. In connection with FMI equipping its wafer fabrication facility in Gresham, Oregon (the Gresham Facility) to produce flash memory devices for sale to FASL, we agreed to guarantee the repayment of up to \$125 million of Fujitsu's obligations as a co-signer with FMI under its global multicurrency revolving credit facility (the Credit Facility) with a third-party bank (the Guarantee). On November 30, 2001, Fujitsu announced that it was closing the Gresham Facility, due to the downturn of the flash memory market. To date, we have not received notice from Fujitsu that FMI has defaulted on any payments due under the Credit Facility. Furthermore, subsequent to year end, we were informed that amounts borrowed by FMI under the Credit Facility do not become due until the end of March 2002. Accordingly, under the terms of the Guarantee, we are not at this time, and were not at December 30, 2001, obligated to make any payments to Fujitsu. However, subsequent to year end, Fujitsu requested that we pay the entire \$125 million under the Guarantee. Although we disagree with Fujitsu as to the amount, if any, of our obligations under the Guarantee, Fujitsu has indicated its belief that we are obligated to pay the full \$125 million.

On January 29, 2002, we closed a private offering of \$500 million aggregate principal amount of its 4 3/4% Convertible Senior Debentures Due 2022 (the Debentures). The Debentures bear interest at a rate of 4 3/4% per annum. The interest rate will be reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to such date on 5-year U.S. Treasury Notes, plus 43 basis points. The reset rate will not be less than 4 3/4% and will not exceed 6 3/4%.

Our ability to make payments on and to refinance our debt or our guarantees of other parties' debts will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our Loan Agreement in an amount sufficient to enable us to pay our debt or Debentures, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt, including the Debentures, on or before maturity. We cannot assure you that we will be able to

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refinance any of our debt, including our Loan Agreement or the Debentures, on commercially reasonable terms or at all

We may incur substantial additional debt in the future. As of December 30, 2001, we had the ability to borrow \$150 million under the loan and security agreement, and currently have the ability to borrow the full \$200 million. If new debt is added to our and our subsidiaries' current debt levels, the risk of our inability to repay our debt, including the Debentures, could intensify.

The Price of Our Common Stock Continues to Be Highly Volatile. Based on the trading history of our common stock, we believe that the following factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially:

- o quarterly fluctuations in our operating and financial results;
- o announcements of new technologies, products and/or pricing by us or our competitors;
- o the pace of new process technology and product manufacturing ramps;
- o fluctuations in the stock price and operating results of our competitors, particularly Intel;
- o changes in earnings estimates or buy/sell recommendations by financial analysts;
- o changes in the ratings of our debentures or other securities;
- o production yields of key products; and
- o general conditions in the semiconductor industry.

In addition, an actual or anticipated shortfall in revenue, gross margins or earnings from securities analysts' expectations could have an immediate effect on the trading price of our common stock. Technology company stocks in general have experienced extreme price and volume fluctuations that are often unrelated to the operating performance of the companies. Market volatility may adversely affect the market price of our common stock, which could affect the price of our debentures and limit our ability to raise capital or to make acquisitions.

**AMD Annual Report (Form 10-K) for
the fiscal year ended 2002**

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 29, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission File Number 1-7882

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1692300

(I.R.S. Employer Identification No.)

One AMD Place, Sunnyvale, California

(Address of principal executive offices)

94086

(Zip Code)

(408) 732-2400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

(Name of each exchange
on which registered)

\$ 01 Par Value Common Stock

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Act). Yes ☒ No ☐

Aggregate market value of the voting stock held by non-affiliates based on the closing price on March 3, 2003 (\$5.37), as reported on the New York Stock Exchange:

\$1,856,334,749

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

345,686,173 shares as of March 3, 2003

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 1, 2003, are incorporated into Part II and III hereof.

AMD, Advanced Micro Devices, AMD Athlon, AMD Duron, AMD Opteron, QuantSpeed, 3DNow!, Am1772 and MirrorBit are either our trademarks or our registered trademarks in the United States and/or other jurisdictions. Vantis is a trademark of Lattice Semiconductor Corporation. Legerity is a trademark of Legerity, Inc. Microsoft, Windows, Windows NT and MS-DOS are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other jurisdictions. MIPS is a registered trademark of MIPS Technologies, Inc. in the United States and/or other jurisdictions. Other terms used to identify companies and products may be trademarks of their respective owners.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). Variable interest entities often are created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, or other transactions or arrangements. Formerly "Consolidation of Certain Special Purpose Entities" in its draft form, this interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," defines what these variable interest entities are and provides guidelines on how to identify them and also on how an enterprise should assess its interests in a variable interest entity to decide whether to consolidate that entity. Generally, FIN 46 applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. For existing variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003, the provision of this interpretation will apply no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. Currently, we do not have any variable interest entities, and we do not expect the adoption of FIN 46 will have a material impact on our results of operations or financial condition.

Risk Factors

We have recently experienced substantial declines in revenues and increases in operating losses, and we may experience additional declines in revenues and increases in operating losses in the future. Our historical financial results have been, and our future financial results are anticipated to be, subject to substantial fluctuations. Our total revenues for 2002 were \$2,697 million compared to \$3,892 million for 2001. This decline was due primarily to reduced demand for our products resulting from the current economic slowdown and our decision primarily in the third and fourth quarters of 2002 to limit shipments and to accept receipt of product returns from certain customers, each as part of our efforts to reduce excess PC processor inventory in the overall supply chain. We incurred a net loss of \$1.3 billion for 2002 compared to a net loss of \$61 million for 2001. Reduced end-user demand, underutilization of our manufacturing capacity and other factors could adversely affect our business in the near term and we may experience additional declines in revenue and operating losses. We cannot assure you that we will be able to return to profitability or that, if we do, we will be able to sustain it.

The semiconductor industry is highly cyclical and is currently experiencing a severe downturn, that is adversely affecting, and may continue to adversely affect, our business. The highly cyclical semiconductor industry has experienced significant downturns, often in connection with maturing product cycles, manufacturing overcapacity and declines in general economic conditions. The most recent downturn, which began in the fourth quarter of 2000 and continues today, has been severe and prolonged, and future downturns may also be severe and prolonged. Our financial performance has been negatively affected by these downturns, including the incurrence of substantial losses during the current downturn, as a result of:

- the cyclical nature of the supply/demand imbalances in the semiconductor industry;
- a decline in demand for end-user products that incorporate our semiconductors;
- excess inventory levels in the channels of distribution, including our customers;
- excess production capacity; and
- accelerated declines in average selling prices.

If current conditions do not improve in the near term or if these conditions in the semiconductor industry occur in the future, as they likely will to a lesser or greater degree, our business will continue to be adversely affected.

Fluctuations in the personal computer market may continue to materially adversely affect us. Our business is, and particularly our PC processor product lines are, tied to the personal computer industry. Industry-wide fluctuations in the PC marketplace, including the current industry downturn that commenced in 2001 and has continued throughout 2002 have materially adversely affected us and may materially adversely affect us in the

future. If we continue to experience a sustained reduction in the growth rate of PCs sold, sales of our microprocessors may not grow and may even decrease.

In addition, current trends of consolidation within the personal computer industry, as recently evidenced by the Hewlett-Packard/Compaq merger, as well as potential market share increases by customers who exclusively purchase microprocessors from Intel Corporation, such as Dell Corporation, could further materially adversely affect us.

We plan for significant capital expenditures in 2003 and beyond and if we cannot generate the capital required for these capital expenditures and other ongoing operating expenses through operating cash flow and external financing activities, we may be materially adversely affected. We plan to continue to make significant capital expenditures to support our microprocessor and Flash memory products both in the near and long term, including approximately \$650 million during 2003. These capital expenditures include those relating to the continued facilitization of Fab 30 and Fab 25. These capital expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and will also decrease our cash balances. The timing and amount of our capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for products, product mix, changes in semiconductor industry conditions and competitive factors. We regularly assess markets for external financing opportunities including debt and equity. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. In addition, our July 1999 Loan Agreement is scheduled to expire in July 2003. Our inability to obtain needed debt and/or equity financing would have a material adverse effect on us.

In March 1997, AMD Saxony entered into the Dresden Loan Agreements and other related agreements. These agreements require that we partially fund Fab 30 project costs in the form of subordinated and revolving loans to, or equity investments in, AMD Saxony. We currently estimate that the maximum construction and facilitization costs to us of Fab 30 will be \$2.6 billion when fully equipped by the end of 2005. We had invested \$2.1 billion as of December 29, 2002. If we are unable to meet our obligations to AMD Saxony as required under these agreements, we will be in default under the Dresden Loan Agreements, which would permit acceleration of \$587 million of indebtedness, as well as acceleration by cross-default of our obligations under our other borrowing arrangements.

Our joint venture with Fujitsu Limited, FASL, continues to facilitize its manufacturing facilities in Aizu-Wakamatsu, Japan, known as FASL JV2 and FASL JV3. We expect FASL JV2 and FASL JV3, including equipment, to cost approximately \$2.1 billion when fully equipped. As of December 29, 2002, approximately \$1.6 billion of this cost had been funded. To the extent that additional funds are required for the full facilitization of FASL JV2 and FASL JV3, we will be required to contribute cash or guarantee third-party loans in proportion to our 49.992 percent interest in FASL.

We have a substantial amount of debt and debt service obligations, and may incur additional debt, that could adversely affect our financial position. We have a substantial amount of debt and we may incur additional debt in the future. At December 29, 2002, our total debt was \$1.9 billion and stockholders' equity was \$2.5 billion. In addition, we had up to \$200 million of availability under our July 1999 Loan Agreement (subject to our borrowing base). We had also guaranteed approximately \$817 million of debt, and we are currently in disagreement as to the amount we owe, if any, under our additional guarantee to repay up to \$125 million to Fujitsu in connection with a closed wafer fabrication facility in Gresham, Oregon. None of these guaranteed amounts are reflected as debt on our balance sheet.

Our high degree of leverage may:

- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- require a substantial portion of our cash flow from operations to make debt service payments;

- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions and, to the extent of our outstanding debt under our September 2002 Loan Agreement, the impact of increases in interest rates.

Our ability to make payments on and to refinance our debt or our guarantees of other parties' debts will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors beyond our control.

We cannot assure you that we will continue to generate sufficient cash flow or that we will be able to borrow funds under our credit facilities in amounts sufficient to enable us to service our debt, or meet our working capital and capital expenditure requirements or that we will be able to extend the July 1999 Loan Agreement. If we are not able to generate sufficient cash flow from operations or to borrow sufficient funds to service our debt, due to borrowing base restrictions or otherwise, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or borrow more funds on terms acceptable to us, if at all.

Intense competition in the integrated circuit industry may materially adversely affect us. The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market and successive generations of products are developed and introduced for sale. Failure to reduce our costs on existing products or to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins, would have a material adverse effect on us.

Intel Corporation's dominance of the PC processor market may limit our ability to compete effectively in that market. Intel has dominated the market for microprocessors used in PCs for many years. As a result, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the market requires of Intel's competitors. In addition, the financial strength of Intel allows it to market its product aggressively, to target our customers and our channel partners with special incentives and to discipline customers who do business with us. These aggressive activities can result in lower unit sales and average selling prices for us and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially adversely affected by its:

- pricing and allocation strategies and actions;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system (BIOS) suppliers; and
- user brand loyalty.

We expect Intel to maintain its dominant position in the marketplace as well as to continue to invest heavily in research and development, new manufacturing facilities and other technology companies. Intel has substantially greater financial resources than we do and accordingly expends substantially greater amounts on research and development than we do.

In marketing our microprocessors to OEMs and dealers, we depend on third-party companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and

other components. In recent years, many of these third-party designers and manufacturers have lost significant market share to Intel or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

Our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. Our ability to compete with Intel in the market for AMD Athlon 64 and AMD Opteron microprocessors will depend on our ability to ensure that PC platforms are designed to support our microprocessors. A failure of the designers and producers of motherboards, chipsets and other system components to support our microprocessor offerings would have a material adverse effect on us.

If we are unable to develop, produce and successfully market higher-performing microprocessor products, we may be materially adversely affected. The microprocessor market is characterized by short product life cycles and migration to ever-higher performance microprocessors. To compete successfully, we must transition to new process technologies at a fast pace and offer higher-performance microprocessors in significantly greater volumes. If we fail to achieve yield and volume goals or to offer higher-performance microprocessors in significant volume on a timely basis and at competitive prices, we could be materially adversely affected.

To be successful, we must increase sales of our microprocessor products to existing customers and develop new customers in both consumer and commercial markets, particularly the latter. Our production and sales plans for microprocessors are subject to other risks and uncertainties, including:

- our ability to continue offering new higher performance microprocessors competitive with Intel's product offerings;
- our ability to introduce and create successful marketing positions for the upcoming AMD Opteron and AMD Athlon 64 microprocessors, which rely in part on market acceptance and demand for 64-bit microprocessors based on x86 technology.
- our ability to maintain and improve the successful marketing position of the AMD Athlon XP microprocessor, which relies in part on market acceptance of a metric based on overall processor performance versus processor clock speed (measured in megahertz frequency);
- our ability to maintain adequate selling prices of microprocessors despite increasingly aggressive Intel pricing strategies, marketing programs, new product introductions and product bundlings of microprocessors, motherboards and chipsets;
- our ability, on a timely basis, to produce microprocessors in the volume and with the performance and feature set required by customers;
- the pace at which we expect to be able to convert production in Fab 30 to 90 nanometer copper interconnect process;
- our ability to attract and retain engineering and design talent;
- our ability to expand system design capabilities; and
- the availability and acceptance of motherboards and chipsets designed for our microprocessors.

Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors depends on the continuing success of our AMD Athlon microprocessors and the success of future generations of microprocessors, most immediately the AMD Opteron processor, and later this year the AMD Athlon 64 processor. If we fail to achieve continued and expanded market acceptance of our microprocessors, we may be materially adversely affected.

We must introduce in a timely manner, and achieve market acceptance for, our AMD Opteron and AMD Athlon 64 microprocessors, or we will be materially adversely affected. We plan to ship our AMD Opteron

processors in April 2003 and our AMD Athlon 64 processors in September 2003. These processors are designed to provide high performance for both 32-bit and 64-bit applications in servers and in desktop and mobile PCs. The success of these processors is subject to risks and uncertainties including our ability to produce them in a timely manner on new process technologies, including silicon-on-insulator technology, in the volume and with the performance and feature set required by customers; their market acceptance; the availability, performance and feature set of motherboards and chipsets designed for our eighth-generation processors; and the support of the operating system and application program providers for our 64-bit instruction set.

If we were to lose Microsoft Corporation's support for our products, our ability to market our processors would be materially adversely affected. Our ability to innovate beyond the x86 instruction set controlled by Intel depends on support from Microsoft in its operating systems. If Microsoft does not provide support in its operating systems for our x86 instruction sets, including our x86-64 technology that will be introduced with our AMD Athlon 64 and AMD Opteron processors, independent software providers may forego designing their software applications to take advantage of our innovations. If we fail to retain the support and certification of Microsoft, our ability to market our processors could be materially adversely affected.

The completion and impact of our restructuring program and cost reductions could adversely affect us. On November 7, 2002, we announced that we were formulating the 2002 Restructuring Plan to address the continuing industry-wide weakness in the semiconductor industry by adjusting our cost structure to industry conditions. Pursuant to the 2002 Restructuring Plan, we intend to reduce our fixed costs as a percentage of total costs over time from approximately 80 percent to approximately 70 percent. We also expect to reduce our expenses by approximately \$100 million per quarter by the second quarter of 2003. As a result, we expect total expenses in 2003 to be reduced by approximately \$350 million based on current product demand forecasts. We cannot, however, be sure that the goals of the 2002 Restructuring Plan will be realized. The ultimate effects of the 2002 Restructuring Plan could prove to be adverse.

Weak market demand for our Flash memory products, the loss of a significant customer in the high-end mobile telephone market, or any difficulty in our transition to Mirrorbit technology may have a material adverse effect on us. The demand for Flash memory devices has been weak due to the sustained downturn in the communications and networking equipment industries and excess inventories held by our customers. In the third and fourth quarters of this year, our Flash memory product sales grew almost entirely based on strength in the high-end mobile phone market. Our sales in that market are concentrated in a few customers. In addition, we expect competition in the market for Flash memory devices to continue to increase as competing manufacturers introduce new products and industry-wide production capacity increases. We may be unable to maintain or increase our market share in Flash memory devices as the market develops and Intel and other competitors introduce new competing products. A decline in unit sales of our Flash memory devices, lower average selling prices, or a loss of a significant customer in the high-end mobile phone market, would have a material adverse effect on us.

In July 2002, we commenced production shipments of our first product with MirrorBit technology. Our MirrorBit technology is a new memory cell architecture that enables Flash memory products to hold twice as much data as standard Flash memory devices. A lack of customer acceptance, any substantial difficulty in transitioning our Flash memory products to MirrorBit technology or any future process technology could reduce our ability to be competitive in the market and could have a material adverse effect on us.

We rely on our joint venture with Fujitsu, FASL, and if that joint venture is terminated or amended significantly, we could be materially adversely affected. We continue to rely on our joint venture with Fujitsu, FASL, to manufacture our Flash memory devices. In addition, beginning in 2002, Fab 25 began operating as a foundry to FASL and as of year end, Fab 25 was devoted entirely to Flash memory device production for FASL. While the FASL joint venture has been successful to date, there can be no assurance that we and Fujitsu will elect to continue the joint venture in its current form, in some other form or at all, which could have a material adverse effect on us.

Our memory products are based on the NOR architecture and a significant market shift to the NAND architecture could materially adversely affect us. Our memory products are based on the NOR architecture, and any significant shift in the marketplace to products based on the NAND architecture will reduce the total market available to us and therefore reduce our market share, which could have a materially adverse effect on us.

Worldwide economic and political conditions may affect demand for our products and slow payment by our customers. The economic slowdown in the United States and worldwide, exacerbated by the occurrence and threat of terrorist attacks and consequences of sustained military action, has adversely affected demand for our microprocessors, Flash memory devices and other integrated circuits. A continued decline of the worldwide semiconductor market or a significant decline in economic conditions in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us. If the economic slowdown continues or worsens as a result of terrorist activities, military action or otherwise, it could adversely impact our customers' ability to pay us in a timely manner.

Manufacturing capacity utilization rates may adversely affect us. At times we underutilize our manufacturing facilities as a result of reduced demand for certain of our products. We are substantially increasing our manufacturing capacity by making significant capital investments in Fab 30, Fab 25, FASL JV3 and our test and assembly facility in Suzhou, China. If the increase in demand for our products is not consistent with our expectations, we may underutilize our manufacturing facilities, and we could be materially adversely affected. This has in the past had, and in the future may have, a material adverse effect on our earnings and cash flow.

There may also be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on us.

Further, during periods when we are implementing new process technologies, our manufacturing facilities may not be fully productive. A substantial delay in the technology transitions in Fab 30 to smaller than 130 nanometer process technologies employing silicon-on-insulator technology could have a material adverse effect on us.

At this time, the most significant risk is underutilization of our manufacturing capacity.

Unless we maintain manufacturing efficiency, our future profitability could be materially adversely affected. Manufacturing semiconductor components involves highly complex processes that require advanced equipment. We and our competitors continuously modify these processes in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields. Our manufacturing efficiency will be an important factor in our future profitability, and we cannot be sure that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors.

From time to time, we have experienced difficulty in beginning production at new facilities, transferring production to other facilities, and in effecting transitions to new manufacturing processes that have caused us to suffer delays in product deliveries or reduced yields. We cannot be sure that we will not experience manufacturing problems in achieving acceptable yields or product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, transferring production to other facilities, upgrading or expanding existing facilities or changing our process technologies, which could result in a loss of future revenues. Our results of operations could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

We cannot be certain that our substantial investments in research and development of process technologies will lead to improvements in technology and equipment used to fabricate our products or that we will have sufficient resources to invest in the level of research and development that is required to remain competitive. We make substantial investments in research and development of process technologies in an effort

to improve the technologies and equipment used to fabricate our products. For example, the successful development and implementation of silicon-on-insulator technology is critical to our AMD Opteron and AMD Athlon 64 microprocessors. However, we cannot be certain that we will be able to develop or obtain or successfully implement leading-edge process technologies needed to fabricate future generations of our products profitably. Further, we cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive.

If our microprocessors are not compatible with some or all industry-standard software and hardware, we could be materially adversely affected. Our microprocessors may not be fully compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on us.

Our debt instruments impose restrictions on us that may adversely affect our ability to operate our business. Our July 1999 Loan Agreement and our September 2002 Loan Agreement contain restrictive covenants and also require us to maintain specified financial ratios and satisfy other financial condition tests when our net domestic cash is below specified amounts, and the Dresden Loan Agreements imposes restrictive covenants on AMD Saxony, including a prohibition on its ability to pay dividends.

Our ability to satisfy the covenants, financial ratios and tests of our debt instruments can be affected by events beyond our control. We cannot assure you that we will meet those requirements. A breach of any of these covenants, financial ratios or tests could result in a default under our July 1999 Loan Agreement, our September 2002 Loan Agreement and/or the Dresden Loan Agreements. The occurrence of an event of default under any of these agreements or under the indentures governing our 4.75% Debentures and our 4.50% Notes would likely result in a cross-default under the agreements covering the other borrowings and would permit the applicable lenders or noteholders to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable and would permit the lenders to terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under the July 1999 Loan Agreement, the September 2002 Loan Agreement and the Dresden Loan Agreements could proceed against the collateral granted to them to secure that indebtedness. We have pledged substantially all of our personal property, including inventory and accounts receivable, as security under our July 1999 Loan Agreement, and certain property, plant and equipment as security under our September 2002 Loan Agreement, and AMD Saxony has pledged substantially all of its property as security under the Dresden Loan Agreements. If the lenders under any of the credit facilities or the noteholders or the trustee under the indentures governing our 4.75% Debentures and our 4.50% Notes accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings and our other indebtedness.

Costs related to defective products could have a material adverse effect on us. One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

If essential raw materials are not available to manufacture our products, we could be materially adversely affected. Certain raw materials we use in the manufacture of our products are available from a limited number of suppliers. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure certain of these materials, we might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

Our operations in foreign countries are subject to political and economic risks, which could have a material adverse effect on us. Nearly all product assembly and final testing of our products are performed at our manufacturing facilities in Malaysia, Thailand, China and Singapore; or by subcontractors in the United States

and Asia. We also depend on foreign foundry suppliers and joint ventures for the manufacture of a portion of our finished silicon wafers and have international sales operations.

The political and economic risks associated with our operations in foreign countries include:

- expropriation;
- changes in a specific country's or region's political or economic conditions;
- trade protection measures and import or export licensing requirements;
- difficulty in protecting our intellectual property;
- changes in foreign currency exchange rates and currency controls;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and
- loss or modification of exemptions for taxes and tariffs;

any of which could have a material adverse effect on us.

As part of our business strategy, we are continuing to seek expansion of product sales in emerging overseas markets. Expansion into emerging overseas markets presents similar political and economic risks as described above, and we may be unsuccessful in our strategy to penetrate these emerging overseas markets.

Our inability to continue to attract and retain key personnel may hinder our product development programs. Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be otherwise adversely affected.

Our operating results are subject to substantial seasonal fluctuations. Our operating results tend to vary seasonally. For example, our revenues are generally higher in the fourth quarter than the third quarter of each year. This seasonal pattern is largely a result of decreased demand in Europe during the summer months and higher demand in the retail sector of the PC market during the winter holiday season. In recent quarters, a substantial portion of our quarterly sales have been made in the last month of the quarter.

Uncertainties involving the ordering and shipment of, and payment for, our products could materially adversely affect us. Our sales are typically made pursuant to individual purchase orders, and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. We base our inventory levels on customers' estimates of demand for their products, which is difficult to predict. This difficulty may be compounded when we sell to original equipment manufacturers indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize could result in excess or obsolete inventory, which could result in write-downs of inventory.

During 2002, the markets in which our customers operate were characterized by a decline in end-user demand which reduced visibility of future demand for our products and resulted in high levels of inventories in the PC industry supply chain. In some cases, this led to delays in payments for our products. We believe that these and other factors could continue to materially adversely affect our revenues in the near term.

Our price protection obligations and return rights under specific provisions in our agreements with distributors may adversely affect us. Distributors typically maintain an inventory of our products. In most

instances, our agreements with distributors protect their inventory of our products against price reductions, as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally allow for the return of our products. The price protection and return rights we offer to our distributors could materially adversely affect us if distributors exercise these rights as a result of an unexpected significant decline in the price of our products or otherwise.

If we cannot adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures, we may lose a competitive advantage and incur significant expenses. We may not be able to adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Further, patent applications that we file may not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property on a worldwide basis.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that all necessary licenses can be obtained on satisfactory terms, if at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us and others will always be avoided or successfully concluded.

Failure to comply with any of the applicable environmental regulations could result in a range of consequences including fines, suspension of production, alteration of manufacturing process, cessation of operations or sales, and criminal and civil liabilities. Existing or future regulations could require us to procure expensive pollution abatement or remediation equipment; to modify product designs; or to incur other expenses associated with compliance with environmental regulations. Any failure to control the use of, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on our business.

Terrorist attacks, such as the attacks that occurred in New York and Washington, DC on September 11, 2001, and other acts of violence or war may materially adversely affect us. Terrorist attacks may negatively affect our operations. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive and ultimately affect our sales.

Also as a result of terrorism, the United States may be included in armed conflicts that could have a further impact on our sales, our supply chain, and our ability to deliver products to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in or exacerbate economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our securities and on the future prices of our securities.

Our corporate headquarters, assembly and research and development activities are located in an earthquake zone and these operations could be interrupted in the event of an earthquake. Our corporate

headquarters, assembly operations in California and research and development activities related to process technologies are located near major earthquake fault lines. In the event of a major earthquake, we could experience business interruptions, destruction of facilities and/or loss of life, all of which could materially adversely affect us

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. In order to reduce this interest rate risk, we usually invest our cash in investments with short maturities. As of December 29, 2002, substantially all of our investments in our portfolio were short term investments and they consisted primarily of money market funds, short term corporate notes, short term money market auction rate preferred stocks and short term federal agency notes.

The majority of our debt obligations are fixed rate and long term. We continually monitor market conditions and enter into hedges when appropriate. We do not currently have any hedges of interest rate risk in place. We do not use derivative financial instruments for speculative or trading purposes.

Default Risk We mitigate default risk by investing in only the highest credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk.

We use proceeds from debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs.